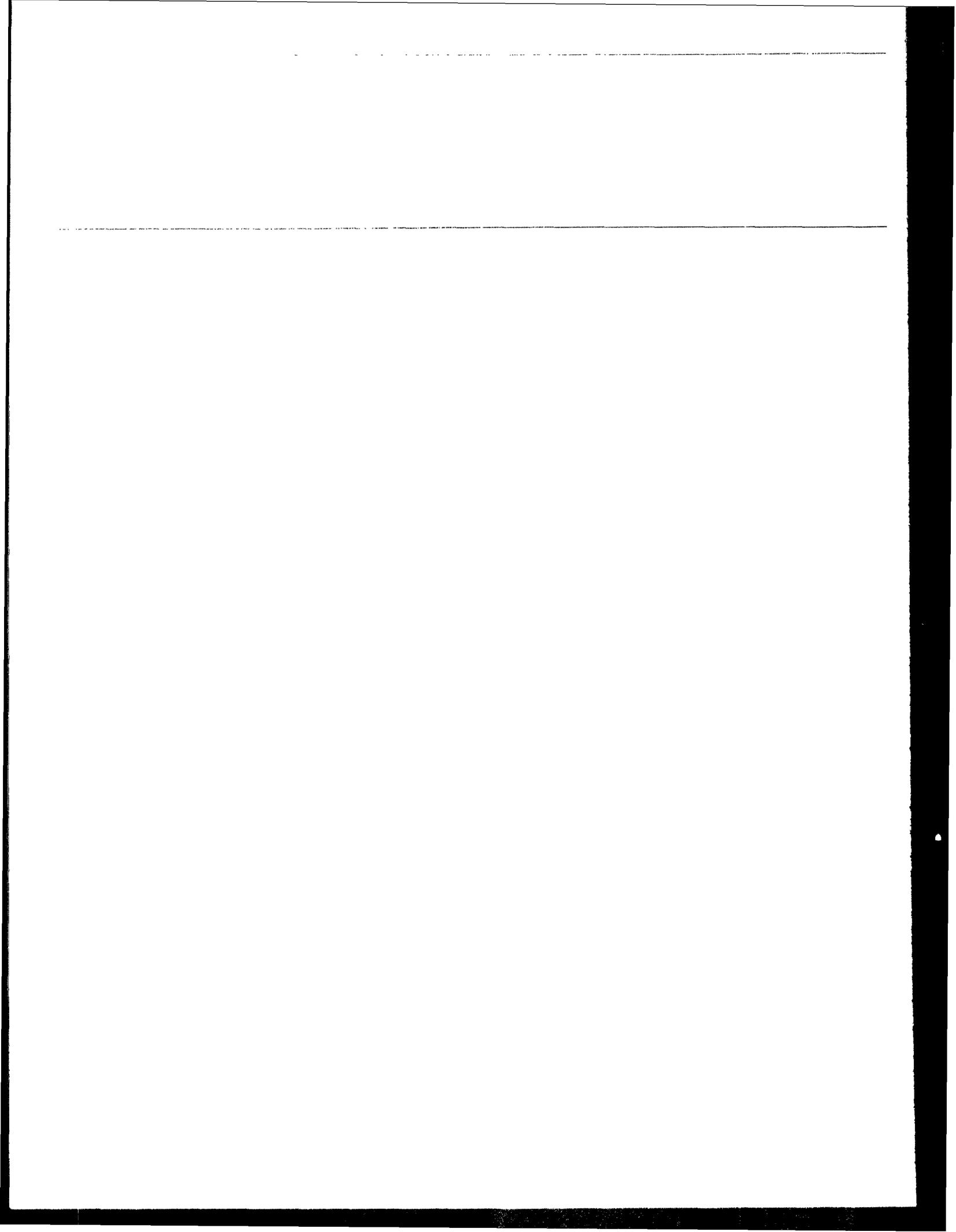


December 1991

VETERANS'
BENEFITS

Millions in Savings
Possible From VA's
Matching Program
With IRS and SSA





Human Resources Division

B-246870

December 23, 1991

The Honorable Lloyd Bentsen
Chairman, Committee on Finance
United States Senate

The Honorable Alan Cranston
Chairman, Committee on Veterans' Affairs
United States Senate

The Honorable G. V. (Sonny) Montgomery
Chairman, Committee on Veterans' Affairs
House of Representatives

The Honorable Dan Rostenkowski
Chairman, Committee on Ways and Means
House of Representatives

The Department of Veterans Affairs (VA) administers \$30 billion in benefits and health care programs for veterans and their dependents. Eligibility for benefits and the level of benefits paid are often income dependent. VA uses self-reported income in establishing eligibility for certain benefits. In general, the lower the reported income, the higher the benefits.

In 1988 we recommended that the Congress amend the Internal Revenue Code to give VA access to tax data to verify income reported by VA pension recipients.¹ We estimated that VA made potential overpayments of over \$157 million in 1984 because it lacked access to tax data.

Section 8051 of the Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508, Nov. 5, 1990) gave VA access, until September 30, 1992, to Internal Revenue Service (IRS) tax data and Social Security Administration (SSA) earnings records to verify the income reported by beneficiaries in the four programs listed below. The first three are administered by VA's Veterans Benefits Administration, and the fourth, by VA's Veterans Health Administration.

1. The needs-based pension program provides about \$4 billion annually to needy wartime veterans with non-service-connected disabilities and

¹Veterans' Pensions: Verifying Income With Tax Data Can Identify Significant Payment Problems (GAO/HRD-88-24, Mar. 16, 1988).

to their survivors. Benefits are generally reduced by earned and unearned income on a dollar-for-dollar basis.

2. The parents' dependency and indemnity compensation (DIC) program provides over \$70 million annually to dependent parents of veterans who died of service-connected causes. Benefits are also reduced by the beneficiaries' earned and unearned income on a dollar-for-dollar basis.

3. The unemployability compensation program provides \$1.3 billion annually in disability benefits to veterans with service-connected disabilities. Benefits are paid at the total disability level based on VA's determination that these veterans cannot work. The veterans' actual disabilities are less than total. Unreported earned income could result in an individual's benefits being reduced by as much as 63 percent.

4. VA provides medical care to about 2.5 million veterans. About 1 million veterans are potentially subject to copayments for this care if their income is above a specified level.

This report responds to section 8051(d) of the act, which requires the Comptroller General to study the effectiveness of using tax data to verify eligibility for VA benefits.

As agreed with your offices, we concentrated on examining the following areas:

- VA's access to, protection of, and use of the data received from IRS and SSA.
- VA's plans to verify the data received in contested cases and its procedures to protect beneficiaries' due process rights.

Results in Brief

VA's first computer match of income reported under the needs-based pension and parents' DIC programs with IRS data on unearned income (such as dividends and interest) for tax year 1989 confirms the potential for substantial savings. Initial results show that nearly \$340 million more in unearned income was reported to IRS than to VA by the same beneficiaries for that tax year. VA officials also expect additional savings to result from matches with SSA earnings data.

VA is notifying beneficiaries of the discrepancies found in reported income and will take action to suspend or terminate benefits. VA has taken appropriate steps to safeguard the data received from both IRS

and SSA. The Department is also following the procedures established by law to protect the beneficiaries' rights and afford them due process. In disputed cases, VA plans to verify income discrepancies with third parties, such as financial institutions and past and present employers.

Despite the promising initial results, start-up for the matching program has been slow. Nearly one-third of the time the law allowed VA to use IRS and SSA data has been spent gaining access to the data. VA and IRS completed their matching agreement in June 1991, and VA received initial IRS data in July 1991. VA finalized an agreement with SSA in July 1991, but SSA's computer programming needed to provide earnings data to VA will not be completed until December 1991.

Progress in matching has been limited to benefits programs. VA Health Administration officials have not notified beneficiaries of their intent to verify income, and are still considering how to implement the law most effectively. Health officials cite the lack of a systemwide data base and staff for their lack of progress to date.

Scope and Methodology

To document VA's efforts to gain access to tax data, we monitored the process that led to VA's completed matching agreements with IRS and SSA. We reviewed the provisions of the Computer Matching and Privacy Protection Act of 1988 that govern access to and use of computerized data by federal agencies. We also reviewed section 6103 of the Internal Revenue Code, which governs the confidentiality of tax information. We discussed the access process with VA, IRS, and SSA program officials. In addition, we reviewed VA's plans to safeguard the tax data received and discussed their adequacy with VA and IRS officials.

To determine how VA would use tax and earnings data, we reviewed the data VA received from IRS and discussed with VA officials their plans to use the data to verify the income reported by beneficiaries. These discussions included VA's plans to afford each beneficiary due process before terminating or adjusting benefits. We reviewed VA's plans to verify IRS and SSA data in contested cases but did not discuss how verification was accomplished with the regional office staff who dealt directly with beneficiaries because this process was just getting under way at the time of our review.

Some congressional committees are concerned about the impact that VA's access to tax data may have on beneficiaries' voluntary compliance with the Internal Revenue Code. However, we could not assess the impact

within the scope of this review because of the limited time the legislation has been in effect.

We conducted our review at VA, IRS, and SSA headquarters between February and September 1991. Our review was conducted in accordance with generally accepted government auditing standards.

We requested comments on a draft of this report from the three departments involved, but none were provided. However, in preparing this report, we incorporated, as appropriate, the views of officials of the departments provided during exit conferences.

VA Received IRS Data Faster Than SSA Data

VA anticipated gaining access to tax data and began working on matching agreements with IRS and SSA before the Omnibus Budget Reconciliation Act of 1990 was enacted. The matching agreement with Treasury to gain access to 1989 unearned income data was completed in June 1991, and VA received data in July 1991. An agreement with the Department of Health and Human Services was completed in July 1991, but VA will not receive any data from SSA before January 1992.

It appears that VA gained access to IRS data more quickly because an organization was established to handle matching agreements. Contacts between VA and IRS were handled through the IRS Office of Disclosure under the Assistant Commissioner for Examination. This office handled all phases of the agreement, including data requirements, programming, data security, and other procedural matters. Office of Disclosure officials told us that this "one stop shopping" approach enabled the agreement with VA to progress as quickly as possible through a potentially cumbersome process.

At SSA, however, VA had to make multiple contacts with staff in organizations across the agency. For example, VA dealt with the SSA project manager in the Office of Policy, which had primary responsibility for developing the matching agreement, under one Deputy Commissioner. VA also had to deal with staff in two other offices, one responsible for computer systems requirements and another for system design, under a second Deputy Commissioner. In addition, staff reporting to a third Deputy Commissioner and SSA's Office of General Counsel helped finalize the agreement.

In our opinion, the fact that VA had to deal with several SSA offices added to the time it took to develop and implement the matching agreement.

SSA officials told us that although the agreement has been approved, the computer programming needed for the match will not be completed until December 1991. SSA records indicate that this programming had a low priority within the agency until June 1991, which may also have contributed to the delay.

Data Safeguards Are in Place

IRS believes that VA has adequate procedures to safeguard the data it received. An Office of Disclosure official told us that IRS did not sign the matching agreement until it was satisfied with VA's procedures. He said that the office's Safeguard Review Team, a component responsible for ensuring that IRS data given to other agencies are properly protected, met with VA Benefits Administration personnel. Discussions were held concerning both the type of data VA would be receiving from IRS and the measures necessary to protect the data. IRS held four training sessions for VA headquarters and regional office personnel to explain the safeguarding procedures required by the Internal Revenue Code.

Since the data that VA will receive from both IRS and SSA are considered tax information, IRS security guidelines will govern all the data. To ensure proper safeguarding of data, the matching agreements with IRS and SSA include provisions for on-site inspection by agency security personnel at VA locations where tax data are kept.

Pension Rolls Decline After Verification Notices Are Sent

Section 8051 requires that VA notify beneficiaries of its intention to verify reported income within 90 days of the passage of the act. In January 1991, VA's Veterans Benefits Administration notified pension, DIC, and unemployability compensation beneficiaries of its intention to verify income information they submitted using data from IRS and SSA. As of August 1991, the number of persons receiving VA pension payments had decreased by more than 13,000, and total pension payments decreased by over \$9 million per month. Based on reports from the regional offices, VA officials believe this decrease in the pension rolls and benefit payments is at least partly a result of beneficiaries' voluntarily informing VA of unreported income before verification began. These beneficiaries now either no longer qualify for pension benefits or qualify for a reduced level of benefits.

Health Care Recipients Still Not Notified

VA Health Administration officials have not notified beneficiaries of their intention to verify income to determine if hospital copayments are due for services rendered. Health Administration officials told us that

the hospital system does not have a systemwide data base that includes dependents' income information that will permit them to efficiently match beneficiary reported income. Hospitals have not collected dependents' income information in the past, but they expect to begin collecting this information in March 1992. Officials also told us that the Health Administration was not given staff to implement the law.

Underreporting of Income Is Significant

The information VA received from its first match with IRS indicates that when submitting income information to VA, 116,000 beneficiaries did not report about \$338 million in unearned income received in 1989. VA reported in September 1991 that it was requesting explanations from about 13,600 benefit recipients who had underreported their income by at least \$4,000. About 5,500 of these beneficiaries had underreported their income by at least \$10,000. One individual had not reported over \$300,000 in unearned income received in 1989. By the end of 1991, VA expects to have requested explanations from 60,000 beneficiaries. The other 56,000 beneficiaries will be contacted after earnings records are received from SSA.

VA told us that actions to reduce, suspend, or terminate benefits could begin by the end of 1991. Due process procedures require that no action can be taken to reduce or suspend benefits for 60 days after beneficiaries are notified of a discrepancy. VA officials told us that after 60 days, it will begin to request third-party verification in cases that it cannot resolve with the beneficiary. This will include requests for verification from financial institutions and present and former employers. VA also plans to subpoena information in order to verify earned and unearned income.

Impact on Voluntary Compliance With the Internal Revenue Code

Because VA's income verification efforts are just beginning, we did not attempt to assess the impact on voluntary compliance with the Internal Revenue Code. However, we do not believe VA's use of tax information should have a major effect on taxpayers' filing behavior. The tax information VA uses to verify income comes from information returns filed by third-party sources, not from tax returns filed by taxpayers. Thus, we would not expect taxpayers to alter their filing behavior simply because of VA's income verification efforts.

Conclusions

Although gaining access to IRS and SSA data took a long time, we believe that once it received data, VA's Benefits Administration began to take

appropriate actions to verify the income of its beneficiaries. Significant savings should result from the actions taken, and more savings should follow. However, VA needs to verify the income of its health care recipients in order to receive the full benefit from the matching program.

VA has taken appropriate steps in its plans both to safeguard IRS and SSA data and to protect the due process rights of its beneficiaries. The effectiveness of these measures, however, should be reviewed periodically after more experience is gained in the implementation of the section 8051 provisions.

We are sending copies of this report to the appropriate congressional committees; the Secretaries of Veterans Affairs and Health and Human Services; the Commissioners of IRS and SSA; the Director, Office of Management and Budget; and other interested parties.

Please call me on (202) 275-5365 if you or your staffs have questions about this report. Other major contributors are listed in appendix I.



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